

How to enjoy preferential tariff rates through EPAs/FTAs

(when importing from Japan)

2008 version

***JAPAN EXTERNAL TRADE ORGANIZATION
(JETRO)***

***Edited by Ministry of Economy, Trade and Industry
JAPAN***

Preface

An EPA (Economic Partnership Agreement) is an agreement for trade and investment.

Recently, Japan has concluded six EPAs and a number of EPAs are under negotiation, mainly with countries in Asia.

EPAs give us an opportunity to import products from Japan with zero or low tariff rates.

We hope that this pamphlet is instructive for the use of EPAs.

-This pamphlet mainly concerns “tariffs” from the viewpoint of importing from Japan.

-It contains basic information about EPAs/FTAs. However, it is only a reference for understanding the benefits of using EPAs/FTAs, and the measures involved.

-For more detailed information, please check the URLs on P.14.

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Q.1

What are EPAs/FTAs?

A.1

An FTA (Free Trade Agreement) is an international treaty to eliminate tariffs imposed between countries or regions and to abolish regulation in the field of foreign investments in trade in services.

An EPA (Economic Partnership Agreement) is an international treaty to deregulate regulations for investments and for immigration control in addition to the contents of an FTA.

EPAs (Economic Partnership Agreements) and FTAs (Free Trade Agreements)

It is likely that the contents of an FTA are included in an EPA.

Japan has agreed on EPA-style treaties mainly with several Asian countries.

EPAs and FTAs have similar features in terms of tariff reduction or elimination.

We describe EPAs/FTAs as EPAs in this pamphlet.

FTA

(Free Trade Agreement)

Bilateral/regional agreement that eliminates/reduces import duties on goods or liberalizes trade in services within the region.

elimination/
reduction of
tariffs

abolishment of the
restriction on foreign
investment in trade
in services

EPA

(Economic Partnership Agreement)

Agreement that strengthens economic partnerships with other countries and regions in various fields with liberalization/facilitation of movement of people, goods, and capital, centering on FTA.

facilitation of
human exchange

cooperation
in various fields

establishment of
investment rules

intellectual property,
competition policy

Q.2

What are the benefits of EPAs?

A.2

Under EPAs, lower tariff rates (EPA tariff rates) are applied to imported products.

Benefits of EPAs

We have to pay the tariffs set by each country at the time of import.

Commonly, the same tariff rates are applied to all countries on the basis of WTO* principles.

(We call this the **MFN (Most-Favored-Nation) rate**.)

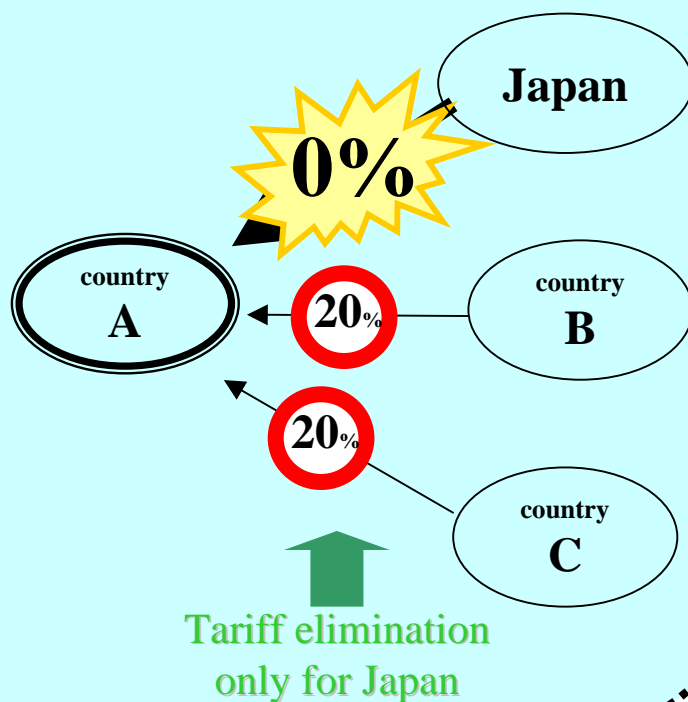
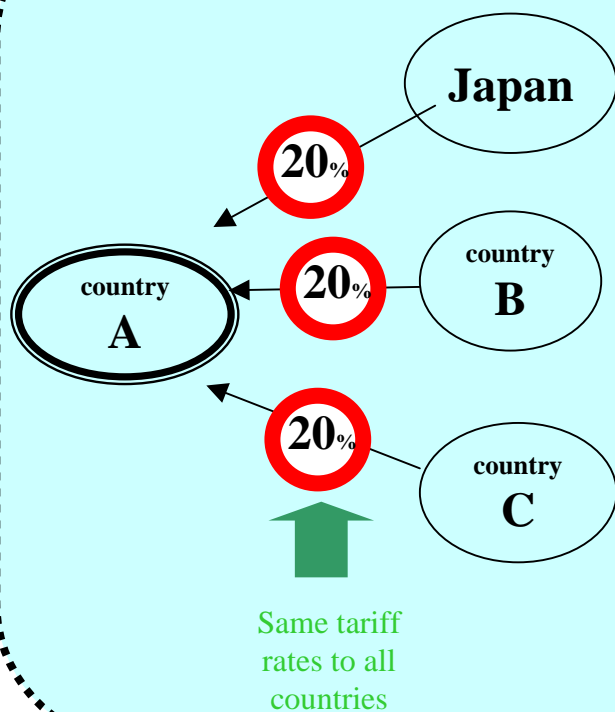
However, EPAs are able to set lower tariff rates than MFN rates (we call these the EPA rates) between bilateral countries, so countries that have concluded EPAs are able to import goods at lower tariff rates than other countries without EPAs.

*WTO: The World Trade Organization - an international organization for legislating fair trade rules. 152 countries are affiliated (as of May 2008).

Example of EPA's benefits

Principle of WTO

Case: Country A agreed on EPA only with Japan



Q.3

How are EPAs used?

A.3

1. To check whether an EPA is applicable or not
 2. To specify tariff numbers (HS code)
 3. To check tariff rates
 4. To check the Rules of Origin
 5. To encourage exporters in Japan to obtain a Certificate of Origin (C/O)
- After checking these five points, start the process of submitting the C/O to the Customs.

START !

1. In which country do you engage in business with Japan?

- A. Singapore, Mexico, Malaysia, Chile, Thailand or Indonesia
B. Other countries

A → B ...→

Unfortunately, EPAs can not be used.

But EPAs will be concluded between Japan and Brunei, the Philippines and ASEAN* in the near future.

*When the EPA among Japan and ASEAN enters into force, this EPA can be used in trade between Japan and each ASEAN country.

2. Does the exporter in Japan know the HS code of the imported products?

- A. Already known
B. Unknown

Check P. 4-5 and make inquiries at Customs authorities.

3. Are the EPA tariff rates of the imported products lower than the normal tariff rates?

- A. Lower
B. Higher

Normal tariff rates (MFN rates) are to be used.

For details on EPA tariff rates, see P. 6.

4. Do the imported products satisfy the Rules of Origin?

- A. Satisfy
B. Do not satisfy

Unfortunately, EPAs can not be used.

For details on the Rules of Origin, see P. 8.

5. Has the exporter in Japan already obtained a Certificate of Origin (C/O)?

- A. Yes
B. No

Communicate with exporter in Japan to obtain C/O.

GOAL !

Now you can use the EPA on condition that you submit the “Certificate of Origin” (C/O) to the Customs in the importing country.

-Details on “How do importers treat a Certificate of Origin (C/O) ?” can be found on P. 9.

Q.4

What is the HS Code?

A.4

The HS code is a classification system that classifies products by numbers.

-How products are specified by the HS code

The HS code comprises numbers stated by the International Convention in the Harmonized Commodity Description and Coding System that was implemented in 1988 to classify products. Whenever products are imported, they are specified by their HS codes, and their tariff rates are stated by each HS code.

All commodities are specified by the HS code in the following way. “Chapters ” (2 digits) → “Headings” (4 digits) → “Subheadings” (6 digits) → “Subdivisions” (in Japan 9 digits). For instance, Chapter 1 characterizes “Live animals”, Chapter 2 characterizes “Meat and edible meat offal” and the last chapter, Chapter 97, characterizes “Works of art”.

The 6 digit level HS code is stated in international treaties, while smaller HS codes differ according to each country’s divisions. So the same 6 digit level HS codes are being used throughout the world, but the smaller HS codes differ in each country. For example, in Japan “subdivision” is 9 digits, but in other countries such as the U.S., “subdivision” is 10 digits.

If you cannot find the HS code of the products for import, ask the local Customs authority. There are cases where the interpretation of the HS code of the importing country and that of the exporting country are different. In that case, importers must make an import declaration using the HS code designated by the Customs in the importing country, so confirmation of the HS code in the importing Customs is necessary.

●●●●For Reference●●●●

The HS 2007 Issue

The HS code (6 digit level) was revised in 1992, 1996, 2002, and 2007. The current six EPAs (between Japan and Singapore, Mexico, Malaysia, Chile, Thailand and Indonesia) were negotiated before the 2007 revision, so all of the six EPAs are based on the 2002 version. This means that, to take advantage of EPAs, we use the 2002 version, while we have to use the 2007 version in normal trade. There are cases in which the HS code in the Import Declaration (ID) and that in the Certificate of Origin (C/O) do not correspond at Customs.

●Method of confirming HS code and EPA tariff rate

Reference: Customs Tariff Schedules of Japan (2008)

HS code	Description	MFN rate	EPA rate
CH85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders, and reproducers and parts and accessories of such articles.	Normal tariff rate	
85.44	Insulated (including enameled or anodised) wire, cable (including co-axial cable) and other insulated electric conductors, whether or not fitted with connectors; optical fiber cables, made up of individually sheathed fibers, whether or not assembled with electric conductors or fitted with connectors.		
8544.60	- Other electric conductors, for a voltage exceeding 1,000 V		
8544.60.010	For motor vehicles	Free	Free
8544.60.090	Other	4.8%	Free

Largest classification is 2 digit level, and the common CH1-CH 97 code are used worldwide.

Same 6 digit codes are used worldwide.

Products are specified as the HS code becomes smaller
(2 digits → 4 digits → 6 digits)

The smallest digits are different in each country. The 9 digit level is the smallest in Japan.

Tariff rates are stated by each smallest HS code (in Japan 9 digits).

●Confirmation of the HS code and the EPA tariff rate (Concept)

Largest classification is the 2 digit classification. CH1-CH97 is used worldwide.

HS:CH85
(Electric devices and parts thereof)

HS:8501 (Motors)

HS:8502 (Generating sets)

HS:8503 (Parts)

HS:8504 (Transformers)

HS:8544
(Insulated wires, cables)

HS:8544.11 (Copper wire)

HS:8544.19 (Other wire)

HS:8544.20 (Co-axial cable)

HS:8544.60

(Other electric conductors)

Smallest classification digits differ in each country (in Japan 9 digits).

HS:8544.60.010
(For motor vehicles)

HS:8544.60.090
(Other)

Same 6 digit codes are used worldwide.

As the HS code becomes smaller, the commodity becomes specified.

Q.5

How are EPA tariff rates defined?

A.5

Typical EPA tariff rates are the following 3 categories:

1. **Tariff elimination when the EPA enters into force** (EPA rate is 0%)
2. **Phasing tariff elimination after entry into force** (EPA rate will be reduced until it becomes 0%)
3. **No tariff elimination or reduction** (Normal tariff rate (MFN rate) is to be used)

Typical EPA tariff rates are the following 3 types:

1. Tariff rate becomes 0% when the EPA enters into force.
2. Tariff elimination occurs in a certain period of time after entry into force.
3. No tariff elimination or reduction (the MFN rate is applied).

So, to use the EPA, it is necessary to check that the EPA rate is lower than the MFN rate.

Case 1: After EPA entered into force, the EPA rate becomes 0%, so there is an advantage in using EPA unless the MFN rate is also 0%.

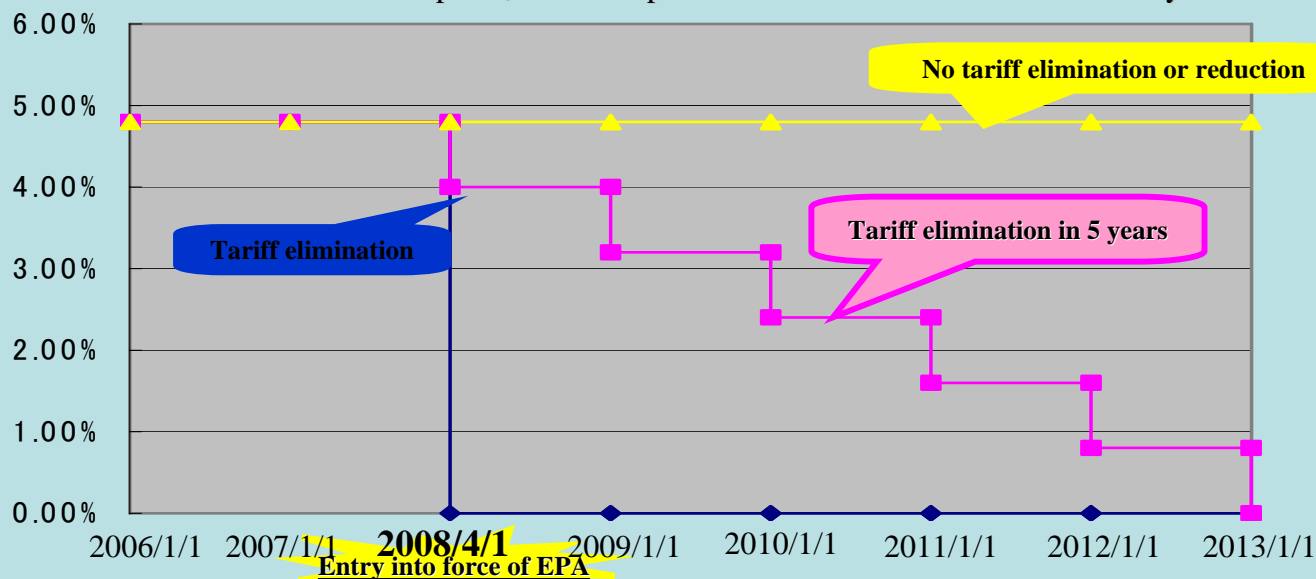
Case 2: After EPA enters into force, EPA rate reduces in annual installments and finally the EPA rate becomes 0%. Normally, after the EPA enters into force, the tariff rate will be reduced in 3, 5, 7 or 10 years, then the EPA rate will become 0% after a certain period of time.

So, when the EPA rate is lower than the MFN rate, there are advantages in using the EPA.

Case 3: In this case, the EPA will not commit any tariff elimination or reduction, so the MFN rate must be used.

Diagram of EPA tariff rate

Case: EPA entered into force on April 1, 2008 and phased tariff elimination will occur in 5 years.



Tariff rate reversed!?

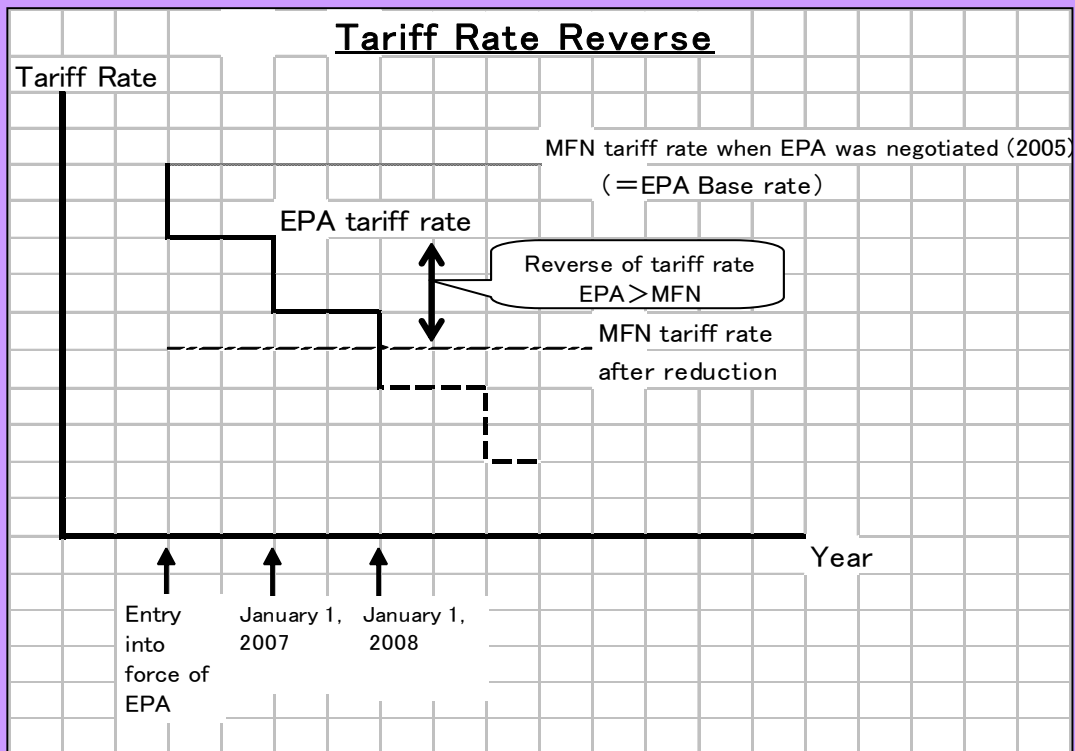
Normally, EPA tariff rates are lower than MFN tariff rates.

However, for some products MFN rates become lower than the EPA rates.

In the EPA system, EPA tariff rates for some products are reduced gradually after the EPA entered into force. If the MFN rates of these products are reduced before the EPA tariff rates are eliminated completely, EPA rates become higher than MFN rates (tariff reverse).

Finally these EPA rates are eliminated to 0% in certain terms, so this tariff reverse issue will be resolved at the time of tariff elimination. It is also possible to select the MFN rates until the EPA tariff rates become lower than the MFN rates.

In the Japan-Mexico EPA, the Japan-Malaysia EPA, and the Japan-Thailand EPA, this tariff rate reverse has actually occurred, so in the case of import, careful confirmation is necessary.



The above diagram shows the tariff rate reverse in the Japan-Malaysia EPA.

After the EPA entered into force in July 2006, the EPA tariff rate of this product was reduced. However, when the government of Malaysia reduced the MFN rate during the reduction phase, the MFN rate became lower than the EPA rate.

In the above diagram, the EPA rate was higher than the MFN rate from January 1, 2007 until December 31, 2007.

Q.6

What are the Rules of Origin?

A.6

The Rules of Origin in EPAs are the conditions for applying EPA tariff rates.

Rules of Origin in EPAs

When exporters and importers confirm that applicable tariff rates for their products under the EPA are lower than those on a MFN basis in the importing country, then they are to assure that their products are qualified for the EPA tariff rates for the next step: Confirmation of originating status.

This process is necessary, because the products targeted by the EPA must be goods that originated in the contracting countries.

The Rules of Origin are the criteria to judge whether the products to be imported have this qualification or not.

When exporters and importers consider that certain products satisfy the Rules of Origin in the EPA, those exporters are to apply for a “Certificate of Origin” to be issued.

In the case of importing from Japan, exporters are to prove to the relevant governmental authority in Japan the fact that such products were actually made in Japan in order to acquire the Certificate of Origin.

What are the Rules like?

Exporters are to check whether the products to be exported are:

1. Obtained or produced entirely in the territory of the contracting country of the EPA. Agricultural products, or mineral products such as aluminum or copper are likely to be covered.
or
2. Produced in one contracting country by using materials imported from no contracting countries.

In the case of 1. above, the products are assumed to be “wholly obtained,” and may be conferred originating status.

When 2. above is the case, then exporters are to check whether the production meets the requirements stipulated in the rules, the so-called Product-Specific Rules, specified on a product-by-product basis. The requirements generally define either a change in HS tariff classification or the extent of value added in the contracting country.

Q.7

How do importers treat a Certificate of Origin (C/O)?

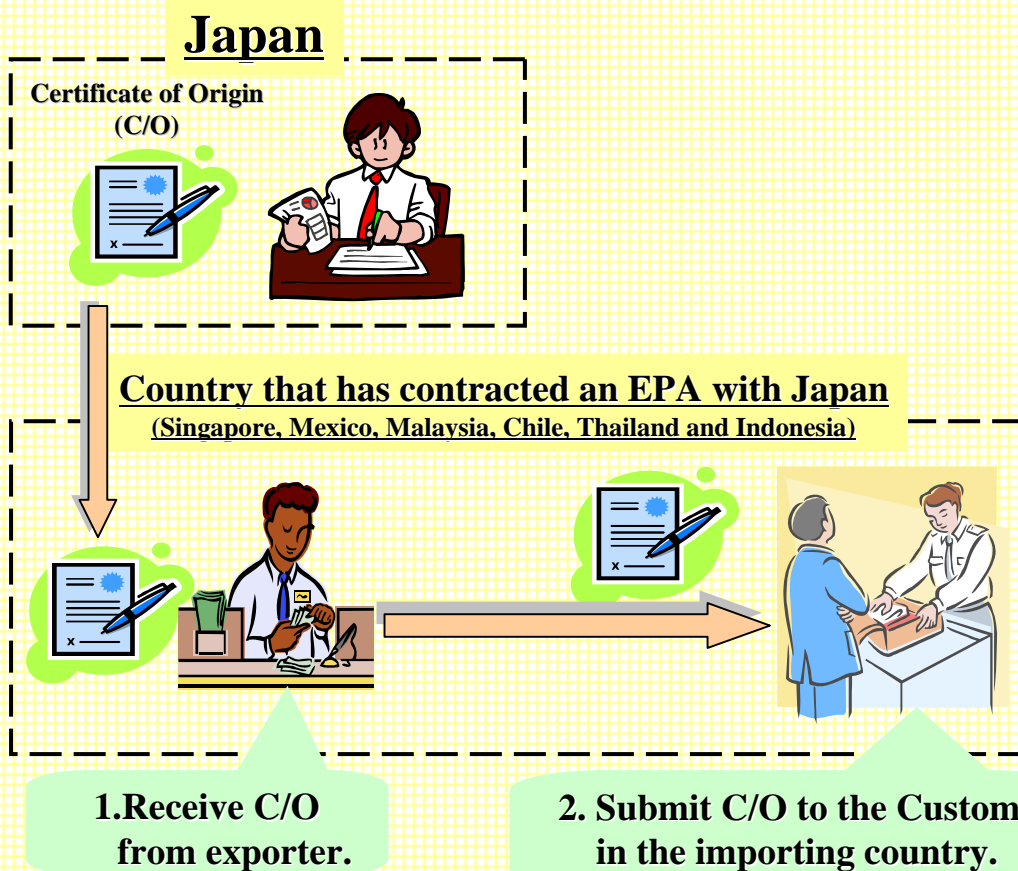
A.7

Importers are to receive the Certificate of Origin from Japan and submit to the Customs in the importing country.

To treat a Certificate of Origin

Exporters in Japan are to send the Certificate of Origin to importers.

After receiving the Certificate of Origin, importers are to submit the certificate to the Customs authority of the importing country in making their import declaration. Importers are to declare their intention to use EPA tariff rates, for the rates do not automatically apply to the imported products at the Customs. The Certificate of Origin proves that the products are eligible to enjoy EPA tariff rates.



How to submit the Certificate of Origin to the Customs in importing country

- 1: Place to submit C/O**
- 2: Time of submitting C/O***
- 3: Attached document of C/O**
- 4: Cost of submitting C/O**

* Excluding cases of "retroactive issuance".

Singapore

- 1: Customs
- 2: At the same time as import declaration
- 3: Nothing
- 4: Nothing

◆<Note>

-Importers are to keep documentary records on all imports for at least 3 years (The normal practice is 7 years). In addition to the normal documents importers are to keep certain other documentary records (relating to sales, production, purchase of raw materials, wages and shipment records, etc.).

-Those requirements are applied to importers in Singapore and also exporters/manufacturers in Japan.

Mexico

- 1: Customs
- 2: At the same time as import declaration
- 3: Nothing
- 4: Nothing

Malaysia

- 1: Customs
- 2: At the same time as import declaration
- 3: Nothing
- 4: Nothing

Chile

- 1: Customs
- 2: At the same time as import declaration
- 3: In addition to the C/O, importers are to submit a handwritten "Declaration of Origin" to the Customs.
- 4: Nothing

Thailand

- 1: Customs
(For products with import quotas, importers are to submit the C/O to the Department of Foreign Trade, Ministry of Commerce too)
- 2: At the same time as import declaration
- 3: Nothing
- 4: Nothing

Q.8	Are there any other policies to eliminate tariffs aside from EPAs?
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A.8	There are other policies to eliminate tariffs in the contracting country, so check these policies before using EPAs.
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Tariff policy in each country that has contracted an EPA with Japan

OMexico

1. IMMEX (Maquiladora)

When manufacturers import components/raw materials to consolidate and re-export completed products such as machinery or devices, those manufacturers are able to use this program. Under this program, tariffs and value-added taxes (VAT) on components/raw materials are not levied on qualified manufacturers.

However, when manufacturers export completed products to the U.S., Canada, the EU and EFTA countries, they should pay tariffs on these components/raw materials to the Mexican Customs within 60 days of the export.

2. PROSEC (Program of Sectoral Promotion)

Companies designated as “manufacturers of completed products” in specific industrial areas (23 areas) are able to use this program. Under this program, qualified manufacturers are able to apply lower tariff rates in the case of importing specified components, raw materials or machines.

3. Automotive Decree

Car-makers designated as “manufacturers of completed cars” by the Ministry of the Economy in Mexico are able to use this program. Under this program, qualified car-makers are able to enjoy special treatment such as importing with no tariffs and using bond warehouses only for completed-car manufacturers.

OMalaysia

1. Drawback of duties based on “Article 93 of Customs Act (CA)”

Under certain conditions, importers are able to get refunded 90% of tariffs levied on re-exported products that were once imported into Malaysia.

2. Free Zone (FZ)

When imported products are produced, manufactured or supplied in designated areas in Malaysia (so-called Free Zones), tariffs on those products and other taxes are exempted.

3. Licensed Manufacturing Warehouse (LMW)

When 2. (FZ) cannot be used, companies can enjoy exemption of tariffs just like in the Free Zones through applying bond factories (so-called LMW) to the Customs.

○Chile

1. System simplified of reimbursement to exporters

Importers are able to refund part of export value from taxes when imported products are manufactured and incorporated into exporting non-traditional products.

2. Tariff refunds

Importers are able to refund tariffs on raw materials, manufactured products and components when they are incorporated into exported products.

3. Extension of tariffs for capital goods

When capital goods are imported, payment of those tariffs can be extended for seven years.

4. Temporary admission for inward processing

When companies are admitting components/raw materials in order to incorporate them into exported products, exporters are able to bond components/raw materials until the time of the export.

○Thailand

1. Duty Drawback under Section 19 bis of The Customs Law

Importers are able to receive a refund of the tariff already paid on imported goods which have undergone production, mixing, assembling or packing of exported within one year from the date of importation.

2. Bonded warehouse

Under a bonded warehouse scheme, the imported goods stored in a bonded warehouse for the purpose of re-exportation shall be exempted from payment of import/export taxes and duties.

3. Free Zone (FZ)

Companies in a Free Zone established by the Customs shall be granted an exemption from payment of import duties and taxes on machinery and new materials used for production of goods in the Zone.

4. Export Processing Zone (EPZ)

Companies in an Export Processing Zone shall be granted exemption from payment of import duties and taxes on machinery and raw materials used for production of exports.

5. Board of Investment (BOI)

Importers are exempted from tariffs on raw and essential materials imported for use specifically in producing, mixing or assembling products or commodities for export, including items that the eligible person imports for re-export.

OIndonesia

1. Reduction or exemption of tariff

When raw materials/devices for environmental protection products, car components for export, or science books, etc. are imported, they are exempt from tariffs.

2. Facilitation of export

When manufacturers import components/raw materials to consolidate and re-export completed products such as machinery or devices, those manufacturers are exempt from tariffs or value-added taxes (VAT) on the components/raw materials.

3. Extension or exemption of tariffs for the Bond area

Certain companies in the Bond area are called PDKB (Pengusaha Didalam Kawasan Berikat), and those companies are exempt from tariffs, value-added taxes (VAT) or surcharges.

Home Page and information on EPAs

Please use this pamphlet as a reference for understanding EPAs.
Further information is necessary for using EPAs.
Please see the following URLs.

Useful URLs

★For further information

For Tariff Rates

Japan Customs HP (Japan's tariff rates) <http://www.customs.go.jp/english/index.htm/>

For Japan-related EPAs

Ministry of Foreign Affairs in Japan

Japan-Singapore EPA: <http://www.mofa.go.jp/policy/economy/fta/singapore.html>

Japan-Mexico EPA: <http://www.mofa.go.jp/policy/economy/fta/mexico.html>

Japan-Malaysia EPA: <http://www.mofa.go.jp/policy/economy/fta/malaysia.html>

Japan-Chile EPA: <http://www.mofa.go.jp/policy/economy/fta/chile.html>

Japan-Thailand EPA: <http://www.mofa.go.jp/policy/economy/fta/thailand.html>

Japan-Indonesia EPA: <http://www.mofa.go.jp/policy/economy/fta/indonesia.html>

Japan-Philippines EPA: <http://www.mofa.go.jp/policy/economy/fta/philippines.html>

Japan-Brunei EPA: <http://www.mofa.go.jp/policy/economy/fta/brunei.html>

Home Page of Singapore

http://www.iesingapore.gov.sg/wps/portal/!ut/p/kcxm/04_Sj9SPykssy0xPLMnMz0vM0Y_QjzKLN4g3C_UFSYG_Y5oFmpFoYo4YImah3phiIWEIMVP_NxU_SB9b_0A_YLc0NDQIHJHAAF8_pE!/delta/base64xml/L3dJdyEvd0_ZNQUFzQUMvNEIVRS82XzBfNIRV

Home Page of Mexico

<http://www.economia.gob.mx/?P=2262#>

<http://www.mexicotradeandinvestment.com/>

Home Page of Malaysia

<http://tariff.customs.gov.my/>

http://www.miti.gov.my/ekpweb/application?origin=contentdetails.jsp&event=bea.portal.framework.internal.refres&pageid=miti&subpageid=publishedcontents§ion=content&global=yes&_cat=C2tESazF2oA3945

Home Page of Chile

<http://cinver.economia.cl/inversiones/pantallas/BuscarSectorProducto/BuscarSectorProducto.jsp?idioma=esp>

<http://www.direcon.cl/index.php?accion=japon2>

Home Page of Thailand

http://igtft.customs.go.th/igtft/en/main_frame.jsp

http://www.thaifta.com/english/index_eng.html

-Note-

Contact Information

If you have any questions relating to trade under EPAs, please contact the JETRO advisers in the following countries.

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